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Price Changes in Selected Agricultural Commodities and Foods

Statement of
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Before the
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

GA 1.5/2:

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss changes in food prices at the farm, processor (manufacturer), and retail levels for selected food items. At your request, Mr. Chairman, and at the request of Congressman Byron L. Dorgan, we have been monitoring the changes in prices of 8 food items: pasta products (spaghetti and macaroni), cereal, white bread, ground beef, chuck roast, pork, fresh chicken, and milk.[1] These food items were selected because a high proportion of U.S. households purchase them on a weekly basis.

In summary, we found that, between June 1 and August 31, 1988, food prices generally increased more at the farm, processor, and retail level than they did during the same period in 1987. We also found that prices of many of the monitored food items had begun to increase prior to the drought--with the January to August 1988 increase being greater than the January to August 1987 increase. Generally, prices increased at all levels of the food marketing system during 1988. Although agricultural commodity prices have increased this year, other costs generally have a greater influence on the final retail price.

OVERVIEW OF PRICE CHANGES

While prices increased this summer, we found that retail prices of seven of the eight food items monitored also increased from January 1 to May 31 of 1988. In the first 5 months of 1987, retail prices of six of these items declined. (Attachment I, shows 1988 monthly retail prices and monthly percentage price changes for the 8 food items studied.)

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[1] To monitor the changes in prices and related indexes for these food items, we relied on the Bureau of Labor Statistics' monthly Average Consumer Prices, Consumer Price Indexes, and Producer Price Indexes.

Retail prices of pasta products, cereal, and white bread increased at least three times more in the summer (June-August) 1988 than they had increased in the summer of 1987. Retail prices of pork increased this summer, but by a smaller percentage than last summer. Chuck roast prices declined this summer after increasing last year during the same period. However, chuck roast prices have often gone down during the June-August period in recent years.

To provide the Committee some perspective on these price changes, I will discuss three grain based products--pasta, cereal, and white bread--and illustrate monthly changes at various levels of the food marketing system. Since these foods are grain based, they are more likely than some other foods to be directly affected by the drought in the short run.

PRICE CHANGES IN PASTA, CEREAL, AND WHITE BREAD

Retail prices of pasta, cereal, and white bread have risen steadily during 1988. Between January and August of this year, retail prices of pasta products rose 10.4 percent, cereal 7.1 percent, and white bread 8.2 percent. However, 43 percent of the pasta and cereal price increases and 57 percent of the white bread increase occurred before June.

Retail and processor prices of pasta, cereal, and white bread increased more between June and August 1988 than they did during the same period in 1987. Retail price increases this year ranged from a 3.5 percent rise for white bread to a 5.9 percent advance for pasta products. Cereal prices increased 4 percent. In 1987, these retail prices rose from .4 percent to 1.7 percent during the June-August period.

Processor price increases for June through August 1988 were also larger than the prior year changes for the same months. Pasta price increases were 4.9 percent for 1988 and 4.1 percent for 1987.

Both cereal and white bread prices increased in 1988 (5.8 percent and 3.7 percent respectively) but white bread increased by 1 percent and cereal did not change in 1987.

Farm level prices of related agricultural commodities increased significantly this year, in contrast to their decline during the same period in 1987. In response to the 1988 drought, farm level prices for durum wheat, the primary agricultural commodity in pasta products, rose 42 percent between June and August. Prices of hard red spring wheat (a primary ingredient in white bread) rose 26.4 percent and the composite price of all grains (the grain composite price represents the agricultural inputs for cereal) went up nearly 31.1 percent. In 1987, farm level prices of all these commodities declined between May and August by as much as 21 percent for all grains.

AGRICULTURAL COMMODITY PRICE CHANGES HAVE A SMALL IMPACT ON RETAIL FOOD PRICES

Increases in agricultural commodity prices have had a limited impact on the yearly trend in increasing retail food prices. The reason for this is that commodity prices typically comprise a small portion of retail food costs, averaging about 30 percent for all foods in 1987. Retail food prices reflect the cost of processing, packaging, transporting and selling foods in addition to the cost of raw farm commodities. For pasta, cereal, and white bread, the agricultural value share of the retail price was 8 percent in 1987, (the most recent source of information). For example, the nearly 42 percent rise this summer in the price of durum wheat would cause only a 3.4 percent increase in the retail price of pasta products. However, retail pasta prices rose 6 percent between June and August 1988. Retail cereal and white bread prices also rose more than would be expected from grain price increases alone.

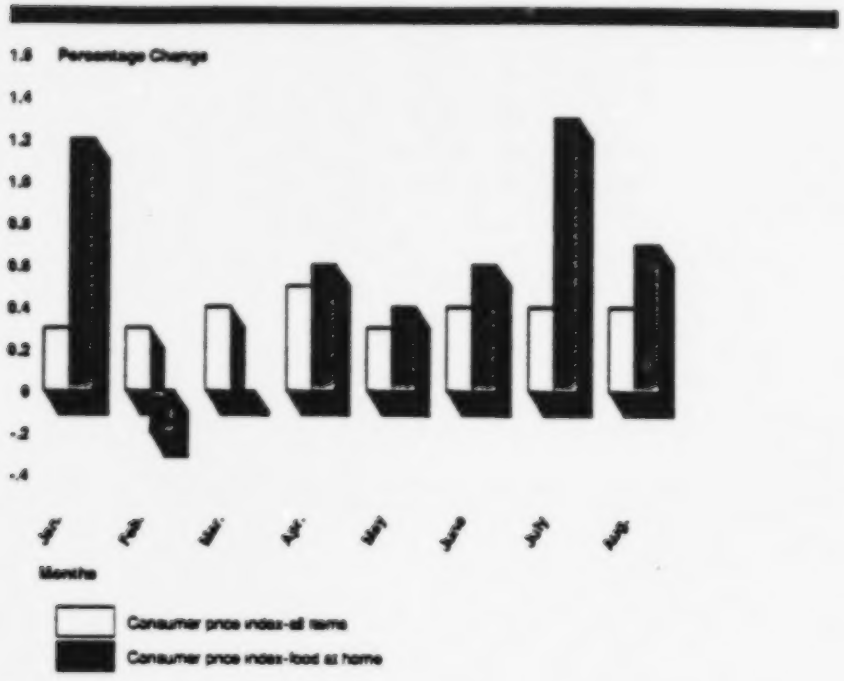
Food industry input costs, profits, and productivity largely determine how much the price of food increases after it leaves the farm. For example, changes in labor costs, which constitute 34.5 percent of retail food prices, on average, play a major role in determining retail food prices. A 10 percent increase in the cost of labor can raise retail prices of pasta, cereal, and white bread by 2.7 percent over a year.

As agreed with your office, we will continue to monitor these food items through the end of this year, and provide you with monthly updates.

Mr. Chairman, this concludes my prepared statement.

Attachment I

Figure I.1: 1988 Monthly Percentage changes for the Consumer Price Index



Source: Bureau of Labor Statistics

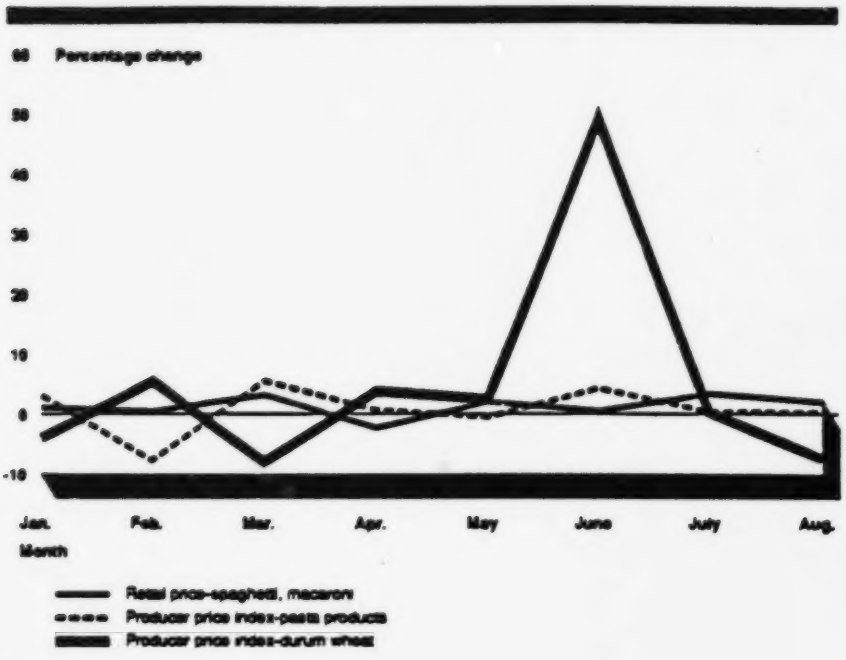
Attachment I

Table I.1: 1988 Monthly Retail Price and Monthly Percentage Change for Monitored Food Items

Food Group	1988 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Jan to Au
Pasta									
Spaghetti, macaroni/lb.									
National average ($)	0.755	0.759	0.783	0.765	0.780	0.784	0.811	0.827	
Monthly change ($)	1.1	.5	3.2	-2.3	2.0	.5	3.4	2.0	10.4
Bakery									
White pan bread/lb.									
National average ($)	0.586	0.586	0.587	0.595	0.598	0.601	0.602	0.619	
Monthly change ($)	2.6	0.0	.2	1.4	.5	.5	.2	2.8	8.2
Beef									
Ground beef/lb.									
National average ($)	1.314	1.315	1.342	1.336	1.365	1.388	1.373	1.37	
Monthly change ($)	-.6	.1	2.1	-.5	2.2	1.7	-1.1	-.2	3.6
Chuck roast/lb.									
National average ($)	1.643	1.736	1.693	1.721	1.801	1.776	1.696	1.674	
Monthly change ($)	-1.1	5.7	-2.5	1.7	4.7	-1.4	-4.5	-1.3	1.2
Poultry									
Fresh chicken/lb.									
National average ($)	0.74	0.745	0.753	0.76	0.796	0.868	0.937	0.961	
Monthly change ($)	5.4	.7	1.1	.9	4.7	9.1	8.0	3.0	27.5
Pork									
National average ($)	1.954	1.94	1.919	1.907	1.9	1.904	1.908	1.879	
Monthly change ($)	-3.3	-.7	-1.1	-.6	-.4	.2	.2	-1.5	-7.2
Milk									
Fresh whole milk/1/2 gal.									
National average ($)	1.157	1.166	1.157	1.159	1.152	1.147	1.147	1.142	
Monthly change ($)	.1	.8	-.8	.2	-.6	-.4	0.0	-.4	-1.2
Low fat milk/1/2 gal.									
National average ($)	1.099	1.103	1.099	1.099	1.1	1.099	1.088	1.112	
Monthly change ($)	.6	.4	-.4	0.0	.1	-.1	-1	2.2	1.9

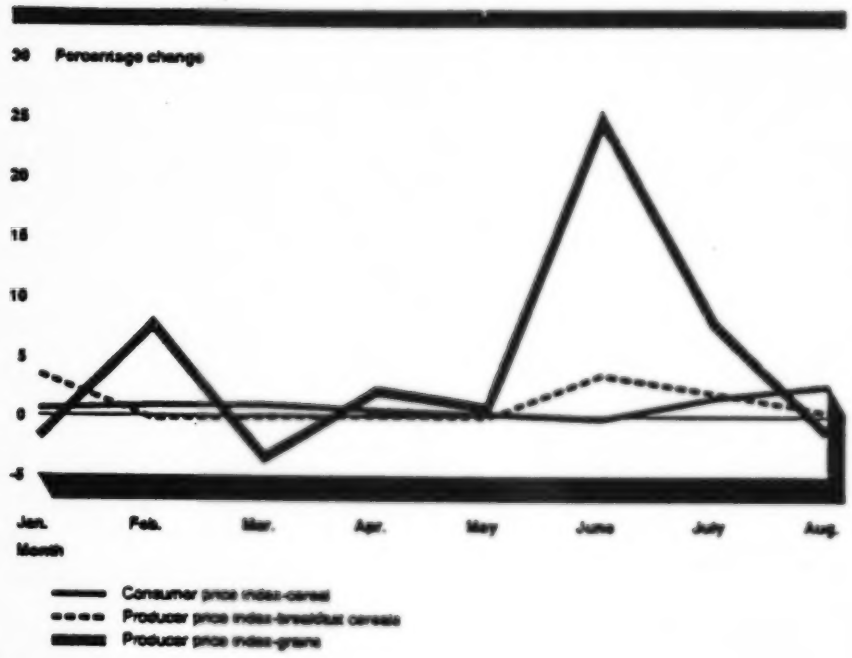
Source: Bureau of Labor Statistics

Figure I.2: 1988 Pasta Price Monthly Percentage Change



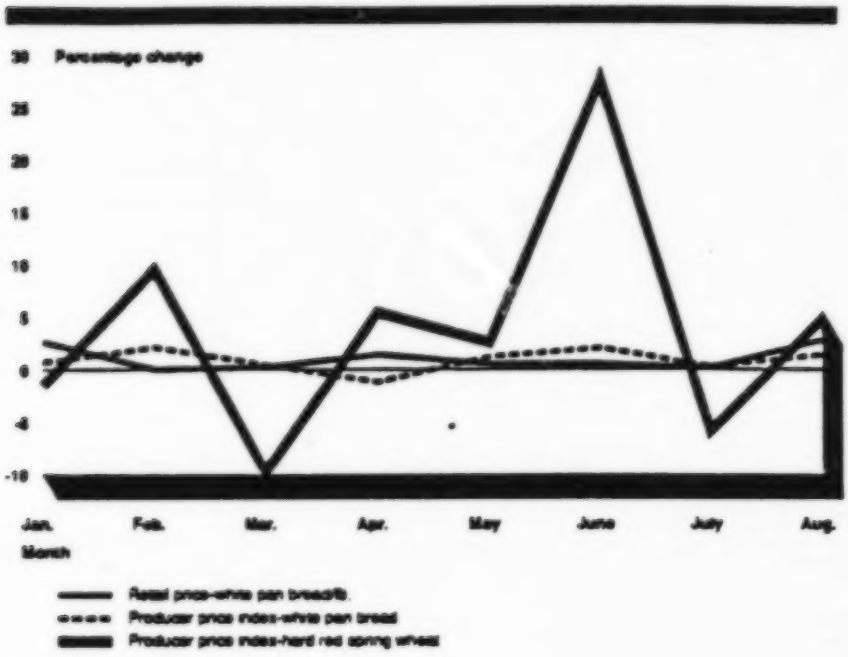
Source: Bureau of Labor Statistics

Figure I.3: 1988 Cereal Price Monthly Percentage Change



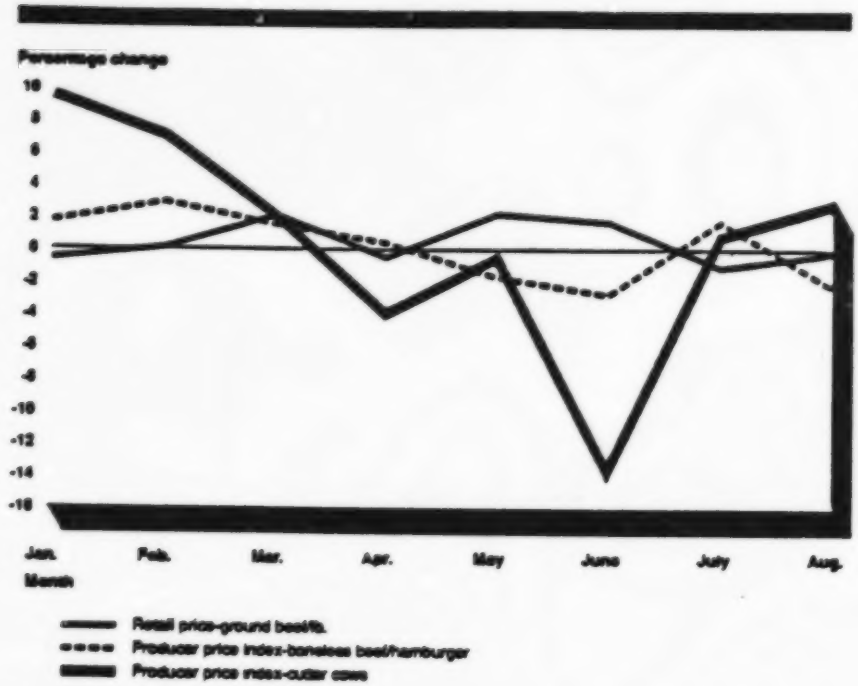
Source: Bureau of Labor Statistics

Figure I.4: 1988 White Bread Price Monthly Percentage Change



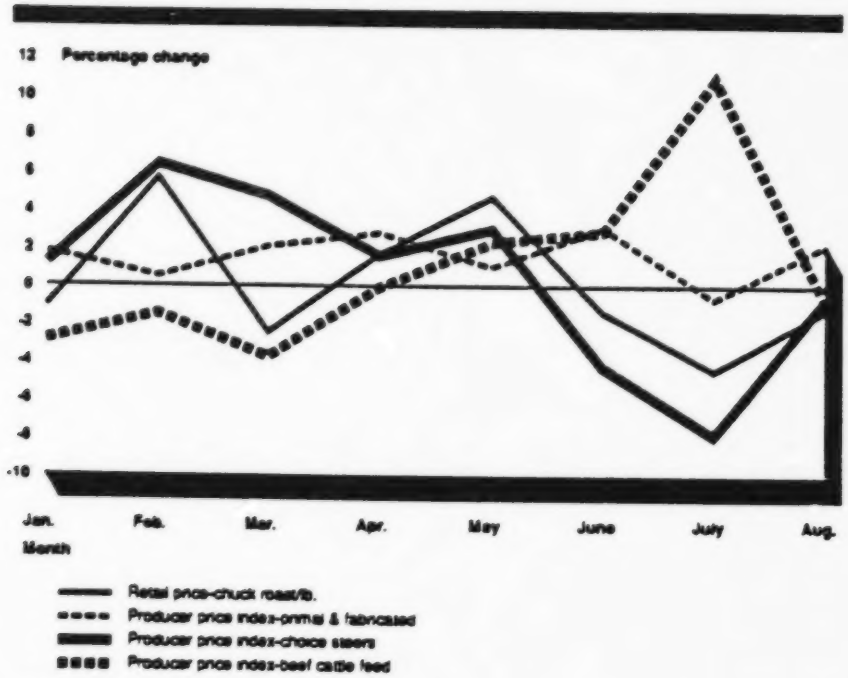
Source: Bureau of Labor Statistics

Figure I.5: 1988 Ground Beef Price Monthly Percentage Change



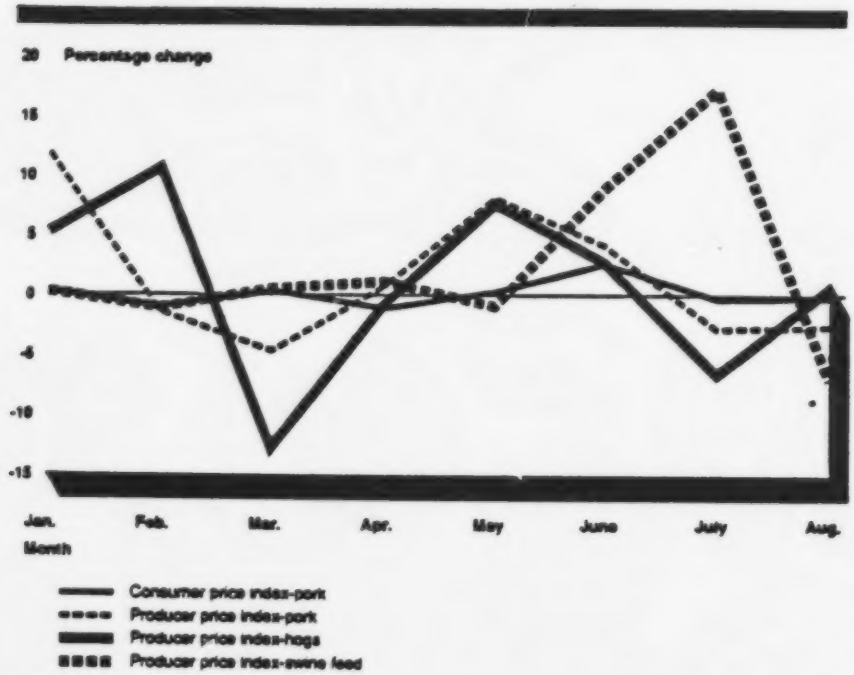
Source: Bureau of Labor Statistics

Figure I.6: 1988 Chuck Roast Price Monthly Percentage Change



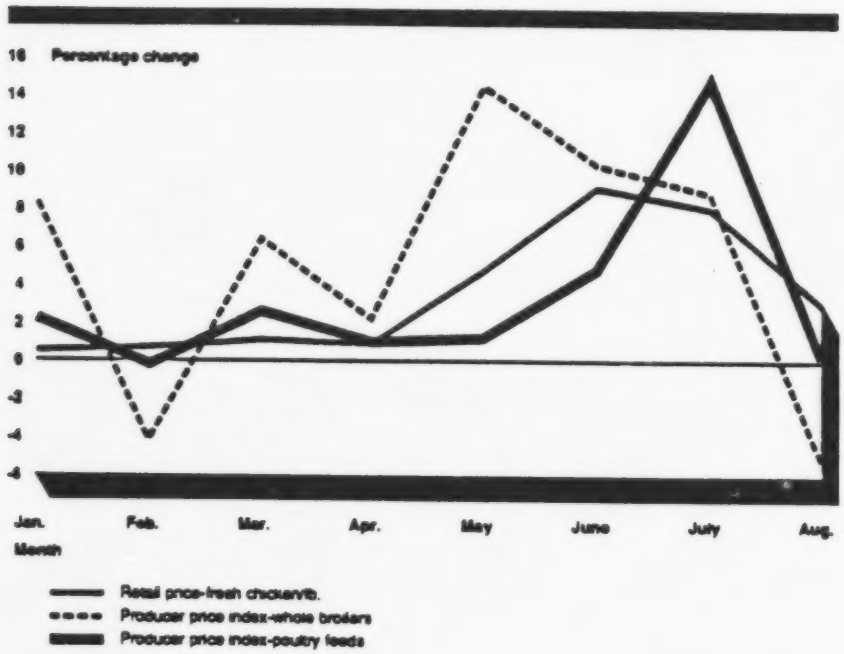
Source: Bureau of Labor Statistics

Figure I.7: 1988 Pork Price Monthly Percentage Change



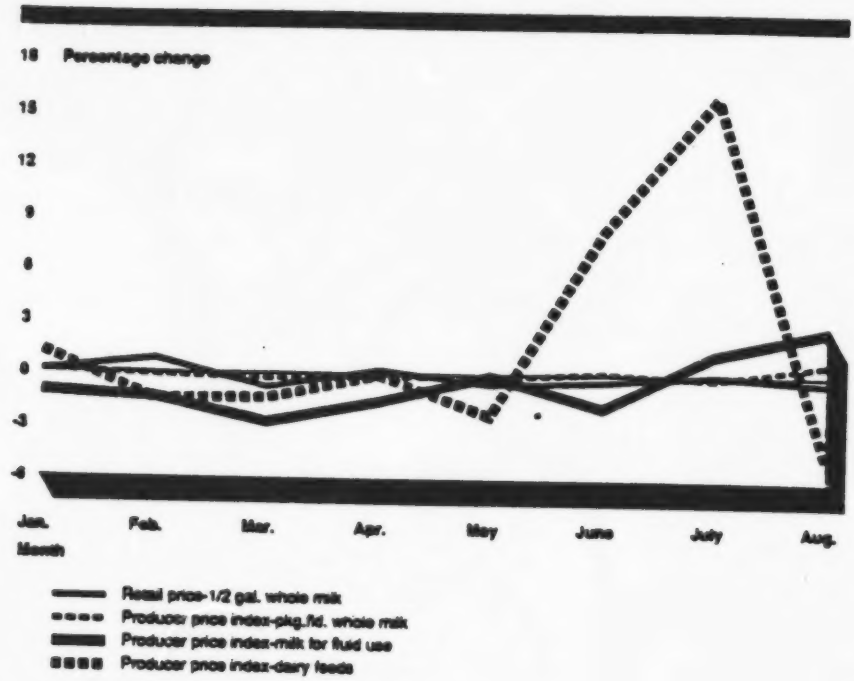
Source: Bureau of Labor Statistics

Figure I.8: 1988 Poultry Price Monthly Percentage Change



Source: Bureau of Labor Statistics

Figure I.9: 1988 Milk Price Monthly Percentage Change



Source: Bureau of Labor Statistics